



21ST SEASON FINANCIAL BREAKFAST



LUC VERSELE - LANDBOUWKREDIET
LUC COENE - NATIONALE BANK OF BELGIUM
PETER VANDEKERCKHOVE - BNP PARIBAS FORTIS
BRUNO COLMANT - FORTIS HOLDING

“*The mentality of both financial institutions and consumers has changed since the crisis. Confidence in the banking industry is gradually returning.*”

The third instalment of the 21st season of the “Financial Breakfast” was one not to be missed: a debate moderated by Frederik Delaplace (Editorial Director) and Martine Maelschalck (chief editor of L'Echo) in which Luc Versele (Landbouwkrediet), Luc Coene (Nationale Bank of Belgium), Peter Vandekerckhove (BNP Paribas Fortis) and Bruno Colmant (Fortis Holding) took stock of the state of the financial industry after a year of severe crisis.

Now that we are seeing that the financial industry can still perform robustly, we have to ask ourselves whether the fear that was rampant in the industry wasn't a bit exaggerated.

Luc Coene: I wouldn't go that far. The crisis is certainly not behind us yet. To illustrate the point, Pierre Mariani of Dexia was originally supposed to join us in this debate but had to cancel at the last moment because he was called to give evidence before Neelie Kroes of the European Commission. I'm convinced that the measures taken in September and October, when the financial industry was teetering on the edge of the precipice and everyone working in the industry wondered every morning what the situation would be like that evening, were appropriately radical. We should do precisely the same thing under the same circumstances. There was no other choice.

Was the situation better for small banks? Landbouwkrediet is in great shape, isn't it?

Luc Versele: I wouldn't put it exactly like that. I think there are three phenomena that we in the financial sector have to pay attention to in a post-crisis world. First of all, the big institutions kept on developing more and more products to rake in enormous returns. In the end, that blew up in their faces and the shrapnel from that explosion has torn throughout the entire industry. Small banks were also among the victims. For instance, we at Landbouwkrediet had Lehman Brothers bonds in our portfolio that we had bought when that bank's rating was still very good. Now that the dust has settled a bit, we also have to pay for the crisis, too. So we are being penalised for a situation we did not cause. That being said, Landbouwkrediet has weathered the crisis well all in all. It is important for the future that consumers are already gradually regaining their confidence in the industry. The flip side is that we expect that the big banks will start competing more with the smaller institutions in the domestic market because of the restrictions being imposed on them by the European Commission and others.



Have consumers truly regained confidence?

Peter Vandekerckhove: Absolutely. To illustrate this, during the crisis we at BNP Paribas Fortis saw 0.8% of the deposits withdrawn, but thanks to transparency on our part, we have a strong basis again.

But weren't consumers' reactions towards the financial industry often too harsh?

Bruno Colmant: That is normal. Let's not forget that a large portion of the financial industry – in a full-blown state of crisis – changed hands in a few hours' time from the private sector to the government. There was no alternative. Nevertheless, it was a shock to a lot of Belgians. Understandably, it took some time before they had come to terms with what had happened. Apart from that, the crisis also taught us that the financial industry has to be very vigilant in maintaining the balance between depositors and shareholders. It did really seem for a moment that savers were like a fifth wheel and everything had to be subordinated to the shareholders' interests. The fact that the Belgian banks suffered more than banks from other countries – with the biggest Belgian bank ultimately being sold – was basically because the banks had actually become disproportionately large given the critical economic mass of the country. Of course, things were not as bad as in Iceland, but still the banks had put on too much weight.

Did the financial banks learn a lesson from the crisis that a more ethical approach is needed?

Luc Versele: Yes, I think so. I do notice a shift in mentality. However, it is too easy to put all the blame for the former attitude on the management of the financial institutions. The boards of management are hardly in a position to point fingers, because they were the ones with the unrealistic expectations. No matter how you cut it, expecting return on investment to increase by 20% annually and for the market share to increase by 10% remains unrealistic. For me, that remains an important lesson: you cannot demand that people in operations achieve excessive returns, because then you do indeed run the risk that things will go seriously wrong.

Is there also a noticeable change in mentality among consumers? And are banks taking this into account in their retail activities? For example, are reverse convertibles still being offered to consumers?

Peter Vandekerckhove: The implementation of the MiFid rules have already brought about an initial significant change. And also expect much greater transparency at our bank. The days of the miniscule fine print are over. We are continuing to move in that direction. To provide a concrete illustration: if an 80-year-old lady suddenly comes to the window and wants to invest her life savings in General Motors bonds because she heard they have a much higher than average return, then it is really not the branch's place to comply with her request. Instead, the staff has to explain to her that she cannot do that because the risks are much too great.

Luc Versele: That sounds good, but I'm not sure how practical that is in reality. Recently I was left scratching my head when I read in the paper that a respected specialist from a large institution was advising people to buy Greek bonds.



The decision was also made in the aftermath of the crisis to entrust monitoring for systemic risks to the Nationale Bank of Belgium (NBB), while the Banking, Finance and Insurance Commission (CBFA) would monitor production-related risks. Will that work?

Luc Coene: One of the big lessons from the crisis is that we cannot overestimate the capacity of financial institutions for self-regulation. Much more supervision and control of risks will be coming. That will limit the capacity of the financial institutions to make choices. Prior to the crisis, there was a gaping discrepancy between microprudential and macroprudential supervision. Now the NBB will keep its sights on both. The CBFA will handle supervision of conduct. I am convinced that this will work better than it has in the past. All the more because there will also be an overarching European system to better control the systemic risks.



How do the smaller banks view the stricter regulatory regime?

Luc Versele: We aren't necessarily opposed to them. But via Febelfin [Belgian Federation for the Financial Industry], we argued for better controls instead of more controls. My main fear is that people won't pay enough attention to the variety of the smaller institutions. If everyone is lumped together, we will pay more proportionately than the large banks. By the way, don't forget that stricter controls also mean banks will need to process more information.

Luc Coene: It is not yet clear, however, that the new regulations will in fact be more expensive for the small institutions. We still need to assess that. On the other hand, everyone will certainly agree that a system of controls can cost something if it can prevent the government from having to step in again in the future. There are also possibilities for regulating this and that and thus really taking the size of institutions into account.

Won't the smaller size requested by the European Commission also eliminate many of the risks?

Bruno Colmant: That goes without saying. The size of the financial institutions partly obscured the perception of risks in the past. At our bank, that has in any case already resulted in a much more transparent business model with a clear distinction between banking activities, on the one hand, and insurance activities, on the other. That is why it is also clear that the CBFA will monitor Fortis Holding.

People in business world have been claiming that big banks are refusing to extend credit. Isn't it a little surprising that the smaller players aren't profiting from this more?

Luc Versele: In 2008, we saw increase of 12.7% in the volume of credit we extend. On the other hand, partly as a result of the crisis, I see business people sometimes request credit without putting anything on the table themselves, without providing any collateral or any clarity about the viability of their plans.



You really cannot blame the bank for not extending credit in these circumstances. The crisis also clearly demonstrated that before banks just extend credit, they need to first take a good look at the structure of their own balance sheet. That is Banking 101, but people seem to have forgotten this. No funding, no credit. Don't forget that most credit is for long term, while only short-term investments are provided in return. That means that the cost of coverage is fairly high. But of course we cannot forget that providing credit forms the basis of our activity and for supporting the economy.

Peter Vandekerckhove: We are making an extra 1 billion euros available to small and medium-sized businesses and we have also offered 66,000 small businesses the opportunity to use their instalments on straight loans as credit so as to keep their working capital at an adequate level. We also banged the drum about this, but these are efforts that show our good will and that we understand that we as bankers are responsible for supplying the economy with basic requirements. On the other side, however, it is true that there is less credit for large investment portfolios, but that is just because most companies have placed their largest plans on the back burner in any case.

Luc Coene: I think we can say that the banks will always have a role to play when it comes to extending credit and that there is absolutely no credit crunch.

What about the interests of governments in the financial institutions?

Bruno Colmant: It is a bit of a schizophrenic situation that the governments now hold such large interests in the banks. I expect that the exit strategy will create quite some debate. All the more so because the governments themselves have huge debts because of the crisis.

How will the banking landscape look in a few years?

Pete Vandekerckhove: There will be more regulation and control. But I expect that no matter what, the banks will be given the space to give consumers the range of products expect. The banks will also have their role to play driving the economy, especially by assisting small and medium-sized business with exporting in an ever more globalised world.

Luc Versele: The trend towards increased Internet banking and home banking cannot be stopped. Now the bigger banks have been forced to slim down, they will pose greater competition in the domestic market. The greying of the population is another trend that also remains important. Older people still need human contact with a banker. So there is room for different players in the market. In any case, we hope the playing field will be even.

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